

# **MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

**March 20, 1996**

The Capital Projects and Bond Oversight Committee met on Wednesday, March 20, 1996, at 1:00 p.m., in Room 129 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senators Jeff Green and Bob Leeper; Representatives Jim Maggard, Tommy Todd, and Jim Wayne.

Guests: Bill Hintze, Roger Burge, Governor's Office for Policy and Management; Armond Russ, Jim Abbott, Department for Facilities Management; Tom Howard, Marilyn Eaton-Thomas, Kim Blitch, Office of Financial Management and Economic Analysis; Larry Barker, Roger Green, Department of Military Affairs; Bruce Bailey, Cabinet for Human Resources; Ken Clevidence, Mary Allen, University of Kentucky; Sherron Jackson, Council on Higher Education; Zelma Parker Barnett; Jack Affeldt, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, Scott Varland, Esther Robison.

Representative Wayne made a motion to approve as submitted the minutes of the February 21 and February 28, 1996 meetings. The motion was seconded by Senator Green and approved.

Chairman Damron said several Correspondence items were provided:

1. A letter to Senator Charlie Borders from Corrections Commissioner Jack Lewis, providing information on prison construction costs as requested by Senator Borders at the Committee's January 24, 1996 meeting.

2. The Council on Higher Education reported its approval of real property acquisitions by Northern Kentucky University and the University of Kentucky. Chairman

Chairman Damron said both land acquisitions are reported for the Committee's information and no action is required. He noted, however, language in the House Budget Bill will require the Committee to review future acquisitions of \$400,000 or more made from budgeted land acquisition pools.

3. A copy was provided of a memo from Chairman Damron and Vice-Chairman Green, on behalf of the Committee, recommending to the House and Senate Chairs of the Appropriations and Revenue Committees an amendment to the Budget Bill to prohibit the use of contingency and emergency account funds for EMPOWER KENTUCKY technology initiatives. Chairman Damron said this language was included in the Budget Bill passed by the House.

4. A copy was provided of a memo Chairman Damron sent to the House Appropriations and Revenue Committee offering language to limit the suspension of the capital construction statutes for the EMPOWER KENTUCKY initiative. This proposed amendment was not included in the House-passed Budget Bill.

First under New Business, the Finance and Administration Cabinet reported a new state lease with annual rental cost exceeding \$200,000 for the Cabinet for Human Resources (CHR). Mr. Jim Abbott, Director, Division of Real Properties, said lease contract PR-4006 will provide 46,000 sq. ft. of office space in the Lexington Business Center Building, 1350 New Circle Road, Lexington, for a rental rate of \$9.50 per sq. ft. and an annual cost of \$437,000. The lease will consolidate CHR employees in the Divisions of Field Services and Child Support currently housed in a total of 39,486 sq. ft. in 4 locations. Mr. Abbott said the current offices, some of which are overcrowded, are in 2 leased properties on Winburn Drive and Woodhill Drive in Lexington, and 2 state-owned properties - the Lexington State Office Building (SOB) and Eastern State Hospital. The new lessor is Banyan Strategic Realty Trust (BSRT) Lexington Corp., whose parent company is headquartered in Chicago; the property manager is Paragon Group Property Services, headquartered in Dallas. Over 50% of the cost of the new lease will be paid with federal funds. [KRS 48.111(5-6) provides that a lease with an annual rental cost of \$200,000 may be allowed, even though it is not specifically listed in the budget bill, if: (1) the lease is awarded as a result of the consolidation of leases, or (2) 50% or more of the actual cost will be funded by federal or private funds, and (3) the lease, prior to final authorization, is reported to the Committee for approval or disapproval.]

Chairman Damron asked, since the new lease will be over 50% federally-funded, if the federal government has already approved the required additional funds. Mr. Bailey said a budget request including the additional cost has been submitted to the federal government, and he expected it to be approved.

Representative Maggard asked if there will be cost savings from CHR vacating the 2 leased properties. Mr. Abbott said the existing lease contracts all have 30-day cancellation clauses. He also noted the property on Winburn Drive has been leased by CHR for about 20 years, and is an antiquated facility that does not meet ADA (Americans with Disabilities Act) requirements. Therefore, he said, this property would have to be vacated anyway or be modified to meet requirements. The square footage rental rates for the existing leases are \$4.95 for the Winburn property and \$6.50 for the Woodhill Drive property.

Representative Wayne asked when this lease consolidation proposal was first advertised. Mr. Abbott said it was first advertised on December 12-13, 1994. It was advertised the last time on November 6-7, 1995, with the opening of bids on November 15. Mr. Abbott said the only respondent to advertisements before November 1995 offered property at a rate of over \$16.00 per sq. ft. which was rejected.

Representative Wayne asked if there are any statutory or regulatory requirements stipulating how much time is to be allowed between a lease advertisement and the opening of responses. Mr. Abbott said that while the statutes do not specify how much time is to be allowed for responses, the Division of Real Properties normally allows 2 weeks. He said this lease proposal was also advertised on October 16-17, 1995. The October advertisement requested either the larger consolidation space which was preferred or a smaller property; at that point, the option of splitting the required space was considered due to the difficulty in obtaining the larger space. However, there were no acceptable respondents to the advertisement. Mr. Abbott said an advertisement indicates that the state is soliciting a specific amount of space in a particular area. An advertisement asks anyone interested in offering the type of property needed to respond by a specific date, providing a floor plan of the offered property and its location, along with the address and phone number of the participant. Then Real Properties negotiates with the prospective lessors, identifying what "fit-up," or modifications, will be required of their buildings, so the lessors can submit a "Best and Final" lease proposal.

the statewide averages for utilities and janitorial service are, respectively, \$1.10 and \$.60 per sq. ft.

Representative Maggard made a motion to approve the new lease. The motion was seconded and approved by unanimous voice vote.

Next on the agenda were the bond activity reports from the Office of Financial Management and Economic Analysis (OFMEA). Ms. Marilyn Eaton-Thomas of the Kentucky Infrastructure Authority (KIA) was present to report several loan projects. The first project involved a loan of \$1,342,286 from KIA's Fund C (Governmental Agencies Program) to the Oldham County Water District, to provide 100% funding to expand the Water District's storage and treatment capacity to accommodate a growing customer base. The project includes a one-million-gallon storage tank and an 800,000-gallon booster suction tank, both above-ground with piping; vertical turbine pumps at the treatment plant and a booster station; and a 1,500 GPM gravel pack deep well. The Fund C loan will be at 7.0% for 20 years, and local water rates will be unchanged at \$17.05/month/5,000 gallons for the 5,254 users. Ms. Eaton-Thomas said Oldham County is a rapid-growth region and the Kentucky State Reformatory is a major water customer, so the Water District can well afford this loan with no rate increase. Representative Wayne made a motion to approve the Fund C loan project. The motion was seconded by Representative Maggard and approved by a unanimous voice vote.

Ms. Eaton-Thomas also reported a \$127,000 loan from the KIA's Fund E (Solid Waste Revolving Loan Fund) to the Hopkins County Fiscal Court, to assist in funding the closure and capping of an area landfill. The 20-acre landfill, south of Madisonville, ceased operations in July 1992. The project, a joint effort between Hopkins County and the City of Madisonville, will take place over several years. Other funding for the project includes \$350,500 from Hopkins County and \$477,500 from the City of Madisonville, for a total project cost of \$955,000. The Fund E loan will be at 2.60% for 10 years. Ms. Eaton-Thomas said there are no collected local fees to provide a dedicated revenue stream for repayment of the Fund E loan; funds for repayment will come from the Local Government Economic Assistance Fund and the County General Fund.

Ms. Eaton-Thomas said KIA's approval of this project is subject to the following conditions: (1) Hopkins County will enter into an indemnification and hold harmless agreement with KIA regarding any potential liability from any environmental contamination; (2) the County will provide documentation that this debt obligation has

Representative Wayne made a motion to approve the Fund E loan project, subject to the conditions stipulated by KIA. The motion was seconded by Representative Todd and approved by unanimous voice vote.

Ms. Eaton-Thomas also reported KIA's approval of an increase in loan amount for a project approved by the Committee in September 1994 - a loan of \$205,000 from KIA's Fund A (Federally Assisted Wastewater Revolving Loan) to the City of West Liberty, Morgan County. The original project totaling \$627,400 was to construct approximately 20,000 ft. of sewer line to extend service to 165 new customers in 4 unserved areas within the City limits. Ms. Eaton-Thomas said the system was originally planned to be a gravity line system throughout; however, the final detailed engineering study found that a low-pressure sewer system is needed in portions of the new service area. The KIA has approved an increase of \$125,764 (61%) in the Fund A loan to pay the additional cost of pumps and laterals for the low-pressure sewer system. Ms. Eaton-Thomas said, since the other original fund sources for the project were a Community Development Block Grant (CDBG) and a grant from the ARC (Appalachian Regional Commission), the City turned to KIA for the additional needed funds; the revised KIA loan amount is \$330,764. The total project scope is now \$737,972, and the new scope is based on the low bid received for the project. The interest rate on the KIA loan will remain at 1.2% for 20 years, and there is no associated rate increase. Representative Todd made a motion to approve the increased Fund A loan amount. The motion was seconded by Representative Wayne and approved by unanimous voice vote.

Mr. Tom Howard of OFMEA was present to report new bond issues. First reported were School Building Revenue Bonds, Series 1996, with state funding through School Facilities Construction Commission (SFCC) participation in annual debt service payments, for the following school districts:

- a. Corbin Independent (in Whitley County) - with gross proceeds of \$750,000, to renovate the high school. Annual SFCC debt service participation of \$5,502 and locally-funded debt service of \$54,389.
- b. Covington Independent (in Kenton County) - with gross proceeds of \$3,790,000, to finance a partial refunding of previously issued School District bonds - Series 1987 and 1989A (both SFCC-assisted), and 1989B (100% local). Annual SFCC debt service participation of \$337,000 and locally-funded debt service of \$73,000.
- c. Franklin County - with gross proceeds of \$4,265,000, to finance a partial

3 SFCC-assisted school bond issues. The motion was seconded by Senator Green and approved by unanimous voice vote.

Also reported was the proposed issuance of School Building Revenue and Refunding Bonds, Series 1996, with 100% locally-funded debt service and no SFCC debt service participation, for:

- a. Ft. Thomas Independent (in Campbell County) - with gross proceeds of \$170,000, to fund improvements at Moyer Elementary.
- b. Meade County - with gross proceeds of \$3,455,000, to construct a new elementary school. There will be a 5¢ increase in the local school tax to fund repayment of the bond issue.
- c. Webster County - with gross proceeds of \$2,455,000, to fund renovation and addition projects at 3 schools.

Bond Payee Disclosure Forms and additional preliminary information for each bond issue were provided. Ms. Mary Lynn Collins, Staff Administrator, said the Committee's staff had reviewed the 3 bond issues and found that all required information has been provided. She said, other than the Meade County issue, there are no local school tax rate increases associated with the bond issues. She said bond payee information must be provided for the locally-funded school bonds prior to their issuance, but Committee action is not required.

Mr. Howard also reported a new conduit bond issue for the Kentucky Economic Development Finance Authority - Hospital Facilities Refunding Revenue Bonds, Green River Regional MH/MR Board, Inc., with gross proceeds of \$6,130,000. Mr. Howard said issue proceeds will refund the Series 1985 City of Owensboro, Kentucky Hospital Revenue Bonds that were issued to finance the Children's Psychiatric Hospital of Western Kentucky Project. The proceeds of the new bonds, together with the released debt service reserve of \$1,188,593 from the existing issue, will provide a total of \$7,318,593 to refinance the \$6,805,000 principal outstanding for the existing bonds. The new bonds are expected to sell by negotiation on April 1, 1996, at 5.0% with a 14.5 year term. Mr. Howard said the existing bonds have a much higher net interest rate of 13.0% and the total present value savings to accrue over the life of the bonds are estimated at \$1,290,993, which is more than 20% of the outstanding balance. The new bonds are expected to have a rating of "Aa3."

OFMEA also provided for information the monthly and weekly debt issuance calendars.

Next on the agenda was the monthly project report from the Finance and Administration Cabinet. Mr. Bill Hintze of the Governor's Office for Policy and Management (GOPM) introduced the new Commissioner of the Department for Facilities Management, Mr. Armond Russ. Mr. Hintze then reported an allocation of \$250,000 from the emergency repair, maintenance and replacement account to fund an emergency roof replacement for Cherry Hall on Western Kentucky University's campus. Mr. Hintze said former Facilities Management Commissioner Clark Beauchamp authorized an immediate allocation of \$35,000 to protect the Hall's interior, pending damage assessment and development of a more detailed funding estimate. Mr. Hintze said it has been determined that the roof cannot be repaired and must be replaced, and the total cost estimate is \$250,000 (including the \$35,000 allocation). He said the emergency funds have been allocated, and the replacement project is underway. Senator Green made a motion to approve the emergency allocation for the project. The motion was seconded by Representative Todd and approved by unanimous voice vote.

Next reported was an unbudgeted, federally-funded project for improvements at the Capital City Airport in Frankfort. The Federal Aviation Administration has awarded a grant of \$410,771 to the Department of Military Affairs to construct a new taxiway connector between the runway and parallel taxiway, and install new lighting, visual approach aids, and signage. Mr. Hintze said the total project scope is \$456,413, and the grant requires a nonfederal match of 10% or \$45,642. The Transportation Cabinet's Office of Aeronautics will provide \$22,821 from funds it has available for matching projects for local airports across the state, and the Department of Military Affairs will provide \$22,821 from charges it collects for the use of state fixed-wing and rotary aircraft. Mr. Hintze said this project was not identified in the 1994-96 budget, because the federal grant was not then available. Representative Maggard made a motion to approve the unbudgeted project. The motion was seconded by Representative Todd and approved by unanimous voice vote.

The final project reported involved a cost overrun on a bonded project - the Faculty Hall Elevator Renovation project at Murray State University (MuSU). The Elevator project was initially approved for \$240,000 from the Life Safety Projects Bond Pool authorized for the Council on Higher Education by the 1992 General Assembly.

project, including contingencies, is approximately \$340,000; with the earlier cost overruns, this represents a 42% increase over the original project scope of \$240,000. The additional funds will be provided from surplus bond proceeds from the MuSU soil remediation project authorized by the 1994 General Assembly as part of the Council on Higher Education Life Safety Pool. The Council on Higher Education has approved the reallocation of excess funds from the Higher Education Life Safety Pool for the project.

(The cost of the electrical project is estimated at \$50,000. However, \$15,000 remains in the Elevator Renovation project account, which together with the additional allocation will provide \$50,000 plus a \$5,000 contingency in case the project exceeds the current estimate.)

Senator Green made a motion to approve the cost overrun for the project. The motion was seconded by Senator Leeper and approved by unanimous voice vote.

Chairman Damron said the Committee's next meeting is scheduled for Thursday, April 11, the first day of the veto session. There being no further business to come before the Committee, the meeting was adjourned at 1:45 p.m.